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Approved For Release 2004/02/19 : CIA-RDP80M00165A000500200003-0739

3 MAY 1977

Executive Registry
77-500/8

MEMORANDUM FOR: Deputy to the DCI for the Intelligence Community

SUBJECT : Zero-Base Budgeting for the CIAP

REFERENCE : Your Memorandum dated 21 April 1977

1. Attached is a summary of the status of CIA progress and remaining steps for implementing zero-base budgeting (ZBB) for FY 1979. This summary was prepared for input to a Shopping List of Topics for Cabinet Meeting discussion by the Director. I believe this provides you an overview of our internal ZBB procedures.

2. Following discussions between Comptroller staff members and members of your staff on 18 and 21 April 1977 and conversations of our staffs with the Office of Management and Budget Examiner on 29 April 1977, we are reviewing proposals for developing appropriate decision units. It is generally agreed that the CIAP should be summarized in five or six consolidated decision units with approximately sixty decision packages ranked. The make-up of the decision units and decision packages has not yet been determined. While most consolidated decision units are obvious, there are areas such as our information processing work which is desired as a consolidated decision unit by OMB - but does not fit neatly into IC Staff plans for the NFIP. We await guidance in resolving this apparent conflict.

3. CIA program submissions will not be available for internal review until later this week; hence, it is too soon to identify the issues that will be highlighted in decision units. The SIGINT collection transfer plan and continued ADP growth are clear candidates. Longer range issues for which extensive evaluations may be initiated will be identified in the course of our program review in the next few weeks.

4. Representatives of the Office of the Comptroller will be working with your staff during the 3-10 May 1977 time frame to better define our ZBB format for the Policy Review Committee (Intelligence) program review and to develop procedures for preparation of the President's FY 1979 Budget. I will be happy to provide any information you desire to assist in our joint development of ZBB procedures to satisfy your review needs and our management requirements.

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~~EXECUTIVE REGISTRY FILE~~ B-9.5

E. H. Knoche
Deputy Director

Attachment: As Stated

STAT
Orig. Addressee 2 - DDCI 1 - ER 1 - Compt. 1 - AC/Reg
1 - Compt. Subject File 1 - Compt. Reading File
O/Compt./BMG mlp (700) 3 May 77
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STAT

ZERO-BASE BUDGETING IN CIA

The essential elements of zero-base budgeting are identification of decision units, establishment of alternative resource levels for the units, and prioritization, or ranking, of proposed resource commitments. All these features are present in the CIA budget development process, although not precisely in the form envisaged by the recent OMB bulletin. CIA should, however, be able to meet all essential requirements of a full zero-base process in developing the 1979 budget submission.

I. Progress to Date

A modified form of zero-base budgeting was introduced several years ago. Decision Units were identified and are fully integrated into the accounting system of the Agency. Managers at all levels are accustomed to submitting the type of justification information called for by ZBB—a statement of purpose, evaluation of results, discussion of the impact of discontinuing the activity, and discussion of results to be achieved with the use of the level of resources requested. They are also accustomed to proposing and discussing alternative resource levels and to prioritizing their requirements for resources in excess of a specified level.

A number of changes in the budget system have just been introduced that will bring the Agency process to a full ZBB process. For the first time, each of the five major subdivisions of CIA—the four Directorates and the DCI Area—were given two target numbers (below their projected 1979 resource needs) against which to develop programs. The program submissions due in early May will, therefore, come in at three levels—the two levels set by the guidance targets and a third representing the responsible Deputy's judgment on the desirable level. The requirement for establishing priorities has been tightened in a move to produce an explicit ranking of all incremental program proposals above the minimum guidance levels. And the data submitted on five-year projections will be more detailed than in the past, particularly on areas of known budget concern such as automatic data processing costs.

As a result of changes in the data to be submitted, the information compiled for review of the program by Agency management will be more detailed than in the past. It will include the three resource levels submitted by the components, plus the recommendations of the Comptroller. And the rankings of increments above the minimum level will be combined into one Agency-wide list of all items. As we currently conceive the process, the overall ranking list will initially be compiled by the Office of the Comptroller, discussed in detail with top CIA management and the final ranking determined by the DDCI and DCI.

Approved For Release 2004/02/19 : CIA-RDP80M00165A000500200003-5

A further innovation will be the deepening integration of requirements and evaluation into the program review process. A requirements and evaluation component has been incorporated in the Office of the Comptroller, and a series of evaluations are underway that were selected for their potential value to the review of 1979 resource needs. These evaluations will be used in developing the Comptroller's recommendations on component resource requests for 1979 and the Comptroller's consolidated ranking of incremental resource needs. Thus we foresee a program emerging from the review process that has been heavily influenced both by substantive intelligence requirements and by evaluations of past efficiency and effectiveness.

II. Steps Remaining

In the absence of detailed OMB guidance (not due until OMB Circular A-11 is issued in early June), we do not know how much more adjustment of our system will be necessary. However, we believe CIA is already much further advanced into ZBB than most Federal government entities, and we expect to be able to meet the basic requirements of the ZBB approach in our 1979 budget submission.



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

Executive Registry

77-50076

Bulletin No. 77-9

April 19, 1977

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Zero-Base Budgeting

1. Purpose. The President, in a memorandum of February 14, 1977 (Attachment), asked each agency head to develop a zero-base budgeting system to be used in the preparation of the 1979 Budget. In accordance with the President's direction, these instructions provide guidance on the use of zero-base budgeting techniques for the preparation and justification of 1979 budget requests within each agency. Separate instructions will be issued in OMB Circular No. A-11 to advise agencies of budget materials to be submitted to OMB. The instructions in this Bulletin lay the foundation for agency budget submissions in September in accordance with Circular No. A-11.

2. Coverage. These instructions apply to all agencies in the executive branch whose budgets are subject to Presidential review (see OMB Circular No. A-11, section 11.1). These concepts and guidelines are a framework within which each agency should develop necessary procedures to meet its individual requirements. Agencies should insure that the fundamental characteristics of zero-base budgeting are retained. Agencies excluded from the coverage of this bulletin are encouraged to develop zero-base budgeting procedures.

3. Definition of terms.

a. Decision unit. The program or organizational entity for which budgets are prepared and for which a manager makes significant decisions on the amount of spending and the scope or quality of work to be performed.

b. Decision package. A brief justification document that includes the information necessary for managers to make judgments on program or activity levels and resource requirements. A series of decision packages (a decision package set) is prepared for each decision unit and

cumulatively represents the total budget request for that unit.

c. Consolidated decision packages. Packages prepared at higher management levels that summarize and supplement information contained in decision packages received from lower level units. Consolidated packages may reflect different priorities, including the addition of new programs or the abolition of existing ones.

d. Ranking. The process by which managers array program or activity levels (as shown in decision packages) in decreasing order of priority. This ranking process identifies the relative priority assigned to each decision package increment contained in the manager's budget request based on the benefits to be gained at and the consequences of various spending levels.

e. Minimum level. The program, activity, or funding level below which it is not feasible to continue the program, activity, or entity because no constructive contribution can be made toward fulfilling its objective. The minimum level:

-- may not be a fully acceptable level from the program manager's perspective; and

-- may not completely achieve the desired objectives of the decision unit.

f. Current level. The level that would be reflected in the budget if fiscal year 1978 activities were carried on at 1978 service or other output levels without major policy changes. A concept, not unlike current services, that nevertheless permits internal realignments of activities within existing statutory authorization. Estimates of personnel compensation and other objects of expenditure will be made in accordance with OMB Circular No. A-11.

4. The zero-base budgeting concept. Zero-base budgeting is a management process that provides for systematic consideration of all programs and activities in conjunction with the formulation of budget requests and program planning.

The principal objectives of zero-base budgeting are to:

-- involve managers at all levels in the budget process;

- justify the resource requirements for existing activities as well as for new activities;

- focus the justification on the evaluation of discrete programs or activities of each decision unit;

- establish, for all managerial levels in an agency, objectives against which accomplishments can be identified and measured;

- assess alternative methods of accomplishing objectives;

- analyze the probable effects of different budget amounts or performance levels on the achievement of objectives; and

- provide a credible rationale for reallocating resources, especially from old activities to new activities.

To accomplish these objectives zero-base budgeting requires these decision-makers to:

- use "decision packages" as the major tool for budgetary review, analysis, and decisionmaking; and

- rank program or activity levels in order of priority.

5. Benefits anticipated in the Federal Government. This new system can provide significant benefits at all levels throughout the Federal Government. These benefits include:

- focusing the budget process on a comprehensive analysis of objectives, and the development of plans to accomplish those objectives;

- providing better coordination of program and activity planning, evaluation, and budgeting;

- expanding lower level management participation in program and activity planning, evaluation, and budgeting;

- causing managers at all levels to evaluate in detail the cost effectiveness of their operations and specific activities--both new and old-- all of which are clearly identified;

-- requiring that alternative ways to meet objectives are identified;

-- identifying trade-offs between and within programs; and

-- providing managers at all levels with better information on the relative priority associated with budget requests and decisions.

Many agency management processes are aimed at providing some if not all of these same benefits. In many instances, however, such processes do not operate agencywide and the information relevant to the processes is not gathered, analyzed and reviewed in a systematic manner for all programs and activities. The value of zero-base budgeting is that it provides a process requiring systematic evaluation of the total budget request and all program objectives.

6. The zero-base budgeting process. Agencies should develop their internal zero-base budgeting procedures within the following framework.

a. Identification of objectives. An important early step in zero-base budgeting is the identification of objectives for all managers preparing and reviewing decision packages.

Top level agency management should be involved in setting objectives for lower level agency managers to:

(1) help ensure that appropriate guidance is furnished to managers throughout the agency;

(2) aid managers preparing decision packages in defining, explaining, and justifying their work to be performed and the associated resources; and

(3) aid top and intermediate level managers in understanding and evaluating the budget requests.

Program and organization objectives should be explicit statements of intended output, clearly related to the basic need for which the program or organization exists. The task of identifying objectives requires the participation by managers at all levels to determine the ultimate realistic outputs or accomplishments expected from a program or organization (major objectives) and the services or products

to be provided for a given level of funding during the budget year (short-term objectives).

However, lack of precise identification and quantification of such objectives does not preclude the development and implementation of zero-base budgeting procedures.

As objectives are identified, managers should simultaneously determine the key indicators by which performance and results are to be measured. Agencies should specify measures of effectiveness, efficiency, and workload for each decision unit. These measures can often be obtained from existing evaluation and workload measurement systems. If such systems do not exist, or if data are not readily available, desirable performance indicators should not be rejected because of apparent difficulties in measurement. Indirect or proxy indicators should be considered initially, while evaluation and workload systems are developed to provide the necessary data for subsequent budget cycles.

b. Identification of decision units. Another of the first steps in zero-base budgeting is the identification of the entities in the program or organization structure whose managers will prepare the initial decision packages. In all instances, the identification of the decision units should be determined by the information needs of higher level management. Agencies should ensure that the basic decision units selected are not so low in the structure as to result in excessive paperwork and review. On the other hand, the units selected should not be so high as to mask important considerations and prevent meaningful review of the work being performed. In general, the decision unit should be at an organizational or program level at which the manager makes major decisions on the amount of spending and the scope, direction, or quality of work to be performed. A decision unit normally should be included within a single account, be classified in only one budget subfunction, and to the extent possible, reflect existing program and organizational structures that have accounting support.

c. Preparation of decision packages. The decision unit manager performs two types of analyses based on the program and budget guidance received from higher level management. First, the manager examines alternative ways of accomplishing the major objectives. Such alternatives may require legislation and may have been identified and developed as a result of a major reexamination of the program or activity. In other instances the alternatives identified may not be fully developed, but will serve as a

basis for reexamining the program at a later date. In still other instances, the alternatives identified may be the first steps toward more significant changes that will take longer than one year to accomplish. Normally, the best alternative is then selected and used as the basis for the second type of analysis--the identification of different levels of funding, activity, or performance. The purpose of identifying these different levels is to provide information on: (1) where reductions from the total request may be made, (2) the increased benefits that can be achieved through additional or alternative spending plans, and (3) the effect of such additions and reductions. Again, legislation may be required to put into effect some level of funding or performance.

However, nothing in this process should inhibit or prohibit any decisionmaker from submitting, requesting, or reviewing any information needed for analyses and decisionmaking. For example, separate decision package sets may be prepared to examine the impact of different alternatives. Also, packages reflecting increased performance or funding levels may introduce alternative methods of accomplishment that were not feasible at a lower level.

The guidance received from higher level management may determine the specific service, performance, output, or funding levels and the objectives to be discussed. This helps to insure that information provided in the decision package is broken down and arrayed in a manner conducive to higher level review of issues concerning the decision unit and also covering more than one decision unit. However, in all instances the decision package set should include:

- (1) A minimum level. In all instances, the minimum level should be below the current level (unless it is clearly not feasible to operate below the current level); and

- (2) A current level (unless the total requested for the decision unit is below the current level).

The decision package set may also include, when appropriate:

- (1) A level or levels between the minimum and current levels; and

- (2) Any additional increments desired above the current level.

Proposed changes (supplementals, amendments, rescissions) in current year amounts should be shown in packages separate from the packages described above. However, the above packages should include any budget year effect of current year changes. New programs or activities (e.g., those resulting from new legislative authority or a new major objective) will be proposed in a separate decision package set. Proposals for abolition of current programs or activities normally will not be reflected in a decision package set. However, such proposals should be highlighted, as appropriate, in another part of the agency justification.

The decision unit manager prepares a decision package set that includes decision packages reflecting incremental levels of funding and performance, so the cumulative amount of all packages represents the total potential budget request of the decision unit. Each package shows the effect of that funding and performance level on meeting the assigned objectives. The decision packages serve as the primary tool for budgetary review, analysis, and decisionmaking, although additional material may also be made available or requested for review.

Generally, a series of packages should be prepared for all programs and activities where, through legislative or administrative means, there is discretion as to the amount of funds to be spent or the appropriate method or level of activity. This does not mean that where a spending level is mandatory under existing substantive law, only one level will be identified. There are many instances in which the decision on whether to propose legislative changes is made during the preparation of the budget. There are also instances in which changes in regulations or program administration can affect the amount of resources needed to carry out a mandatory program. In these instances, packages should be prepared that analyze the effects of different funding or performance levels or alternative methods of accomplishing the objectives. In any instance where there is clearly no discretion in the amounts of funds to be spent or the appropriate method or level of activity, at least one decision package should be prepared that summarizes the analysis and decisionmaking that resulted in that request. That decision package should support the conclusion that only one funding or activity level can be considered during the budget process.

d. Ranking of decision packages. Completed decision packages should be ranked initially by the decision unit manager. At higher management levels, the rankings of each

subordinate manager are reviewed and formed into a consolidated ranking. This consolidation process is illustrated in Exhibit 1. The ranking shows the relative priority that discrete increments of services or other outputs have in relation to other increments of services or other outputs. The process is explicitly designed to allow higher level managers the opportunity to bring their broader perspectives to bear on program priorities by allowing them to rank the decision packages and make program trade-offs.

Agencies may use whatever review and ranking techniques appropriate to their needs. However, the minimum level for a decision unit is always ranked higher than any increment for the same unit, since it represents the level below which the activities can no longer be conducted effectively. However, the minimum level package for a given decision unit need not be ranked higher than an incremental level of some other decision unit. A minimum level for a decision unit may be ranked so low in comparison to incremental levels of other decision units that the funding level for the agency may exclude that minimum level package. This would signify the loss of funding for that decision unit.

Decision packages or decision package sets may be prepared to examine the effect of alternative ways to meet an objective (see Section 6.c.). In these instances, only those decision packages that are part of the unit's request should be ranked. The other decision packages should accompany the submission, however, so higher review levels may examine the alternatives and have an opportunity to replace the requested packages with those representing an alternative thus far not recommended.

e. Higher level review. In all instances, the use of decision packages and priority rankings are the major tools for analysis, review, and decisionmaking. At each higher management level:

- decision packages may be revised, deleted, or added; and

- rankings submitted by subordinate managers may be revised.

(1) Consolidation of decision packages. In some small agencies, it may be desirable for each higher management level to review every decision package prepared by each decision unit. In other instances, however, higher

level management's decisionmaking needs may better be met by recasting all or some of the initial decision packages into a lesser number of consolidated decision packages. The consolidated packages would be based upon the more detailed information in the initial packages, but the information would be recast or reinterpreted in a broader frame of reference to focus on significant program alternatives or issues. The objectives may be redefined to reflect the higher level manager's program perspective.

This consolidation process may also be used to reduce what would otherwise be an excessive paperwork and review burden at higher levels. The agency head or his designee should determine at which review level(s) all or some of the packages will be consolidated into a lesser number of packages before submission to the next higher review level (see Exhibit 1). This consolidation should be based on natural groupings of subordinate decision units. Decision units in different budget subfunctions generally should not be consolidated. The consolidated package will summarize the more detailed information contained in the individual packages and identify the subordinate decision units covered.

In all instances a minimum level consolidated decision package will be prepared. This package may or may not include each of the minimum level packages from the decision package sets being consolidated. There will be instances when the preparation of a current level consolidated package is not feasible (e.g., when a decision package for a new program or activity is ranked higher than a current level package). When appropriate, there should also be a level or levels identified between the minimum and current levels.

(2) Type of review. The review can be conducted more effectively at each management level if the type of review is determined beforehand. This is especially important in the mid and higher levels in the agency, where the review workload may be significant, even with consolidation of packages. As a means of increasing the effectiveness of its review, higher level management may decide to limit its review of the higher-ranked packages to that necessary to provide a sound basis for ranking the packages and may choose to examine in more depth only the lower-ranked packages. The lower-ranked packages would be the first to be affected by an increase or decrease in the expected budgetary resources.

7. Preparation of materials. The following materials should be prepared for each decision unit.

a. Decision unit overview. The overview provides information necessary to evaluate and make decisions on each of the decision packages, without the need to repeat that information in each package. It should be at most two pages long, prepared in the format of Exhibit 2, and contain the following information:

(1) Identifying information. Include sufficient information to identify the decision unit, and the organizational and budgetary structure within which that decision unit is located. Each package should include the title of the appropriation or fund account that finances the decision unit, the account identification code (see OMB Circular No. A-11, section 21.3), and any internal agency code necessary.

(2) Long-range goal. When appropriate, identify the long-range goal of the decision unit. Goals should be directed toward general needs, to serve as the basis for determining the major objective(s) undertaken to work towards that goal.

(3) Major objective(s). Describe the major objectives of the decision unit, the requirements these objectives are intended to satisfy and the basic authorizing legislation. Major objectives normally are of a continuing nature or take relatively long periods to accomplish. Objectives should be measurable and should be those that program managers employ; they should form the basis for first determining and subsequently evaluating the accomplishments of programs or activities.

(4) Alternatives. Describe the feasible alternative ways to accomplish the major objectives. Identify which of the alternatives represents the method proposed for the budget year. Briefly explain how the approach selected contributes to satisfying the major objectives and the rationale for not pursuing other alternatives. This may include a discussion of organizational structure and delivery systems; longer-range cost factors; and when applicable, the unique aspects and need for the program that cannot be filled by State or local governments or the private sector (particularly for any enlarged or new proposed action).

(5) Accomplishments. Describe the progress of the decision unit toward meeting the major objectives. This section should include both quantitative and qualitative measures of results.

b. Decision packages. Each (consolidated) decision package should be no more than two pages long, be prepared in a format similar to Exhibit 3, and contain at least the following information:

(1) Identifying information. This information should include organizational identification (agency, bureau), appropriation or fund account title and identification number, specific identification of the decision unit, the package number, and the internal agency code.

(2) Activity description. Describe the work to be performed or services provided with the incremental resources specified in the package. This section should include a discussion and evaluation of significant accomplishments planned and the results of benefit/cost and other analyses and evaluations that will contribute to the justification of that level.

(3) Resource requirements. Include appropriate information, such as obligations, offsetting collections, budget authority or outlays, and employment (full-time permanent and total), for the past, current, and budget years for the upcoming budget. The increment associated with each package should be listed, along with the cumulative totals for each measure used in that package, plus all higher ranked packages for that decision unit. At an appropriate level in the process, budget authority and outlay amounts for the four years beyond the budget year should also be included, in accordance with criteria in OMB Circular No. A-11.

(4) Short-term objective. State the short-term objectives (usually achievable within one year), that will be accomplished and the benefits that will result with the increment specified and the cumulative resources shown in the package. The expected results of the work performed or services provided should be identified to the maximum extent possible through the use of quantitative measures.

(5) Impact on major objective(s). Describe the impact on the major objective(s) or goals of both the incremental and the cumulative resources shown in the package.

(6) Other information. Include other information that aids in evaluating the decision package. This should include:

- explanations of any legislation needed in connection with the package;

- the impact or consequences of not approving the package;

- for the minimum level package, the effects of zero-funding for the decision unit;

- for packages below the current level, an explanation of what now is being accomplished that will not be accomplished at the lower level; and

- the relationship of the decision unit to other decision units, including the coordination that is required.

c. Ranking sheet. Each review level will prepare a ranking sheet to submit to the next higher review level. This ranking sheet should generally contain the information shown in Exhibit 4 for the budget year.

In instances (e.g., revolving funds) where budget authority and net outlays are not a factor in reflecting the appropriate or priority level of performance, managers should use other measures (e.g. total obligations, employment).

8. OMB review and consultation. As an important element of initiating zero-base budgeting, agencies are required this year to submit for OMB and Presidential review their proposals for:

- the program, activity, or organizational level to be the basis of the (consolidated) decision packages that will form the agency budget submission to OMB;

- current and/or budget year issues that should be highlighted through either particular decision packages or, when decision packages are not appropriate, through issue

papers that ultimately tie in to one or several decision packages; and

-- longer-range issues for which agencies will initiate extensive evaluations.

This identification of issues will play an integral role in OMB's spring review of agency programs, activities, and plans. Policy guidance letters to the agencies regarding the preparation of the fall budget submission will be based in part on this information.

OMB representatives will contact the agencies shortly and request these proposals.

9. Inquiries. Should additional discussion be necessary, agencies should contact their OMB budget examiner.



Bert Lance
Director

Attachment

DECISION PACKAGE RANKING AND CONSOLIDATION PROCESS ILLUSTRATED

EXHIBIT 1
BULLETIN NO. 77-9

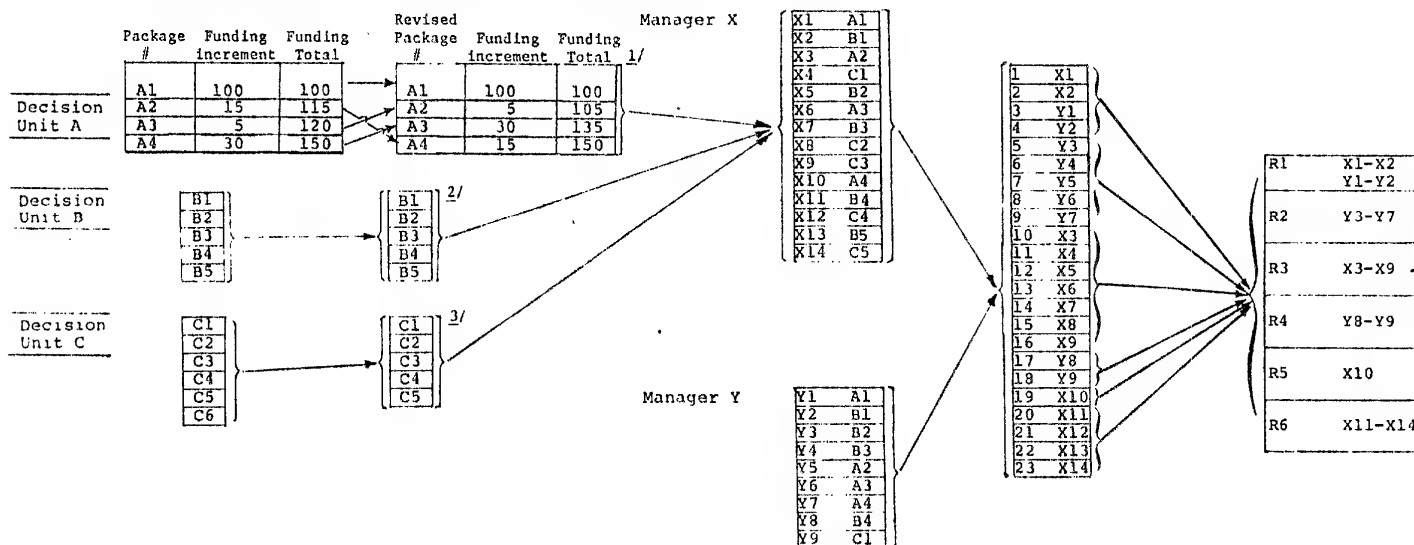
Managers A, B, and C each rank packages for their units and send to Manager X

Manager X receives packages and evaluates and ranks them within each unit

Manager X ranks packages for units A, B, and C against each other, and sends to Manager R

Manager R evaluates packages from Managers X and Y, and then ranks them against each other

Manager R prepares some consolidated decision packages before submitting budget request to next higher level



- 1/ Higher level manager reorders the proposed priorities of the subordinate decision unit managers. The packages may be revised by either the initial decision unit manager or the higher level manager.
- 2/ Higher level manager accepts proposed priorities of the subordinate manager.
- 3/ Higher level manager accepts proposed priorities of the subordinate manager, but chooses not to propose funding of lowest priority package.

Bulletin No. 77-9
Exhibit 2

DECISION UNIT OVERVIEW
Department of Health, Education, and Welfare
Mental Health Administration
Federal Support of Community Mental Health Services
Mental Health: 75-0001-0-1-550

Goal.

To ensure needy citizens access to community based mental health services, regardless of ability to pay. Services should be of high quality, provided in the least restrictive environment, and in a manner assuring patients' rights and dignity.

Major objective.

To assist in the establishment and operation of a nationwide network of 1,200 qualified community mental health centers (CMHCs) by 1984 to ensure availability and accessibility of services to residents of each mental health catchment area.

Current method of accomplishing the major objectives.

Grants are made to public and nonprofit entities to plan and operate community mental health center programs. The planning grants are one-time grants, not to exceed \$75,000 each. The operating grants are for eight-year periods with a declining Federal matching rate.

Alternatives.

1. Consolidate Federal funding for community mental health services and other categorical health service programs into a single formula grant to the States.
2. Consolidate Federal funding for community mental health services and other community-based inpatient and outpatient services--as well as institutionally based short-term acute and long-term care services--for the mentally ill and mentally retarded.

These alternatives are not being pursued because the States thus far have not been able to ensure that funds will be targeted into high priority areas. The Secretary believes the Federal Government must have the ability to do this.

3. Provide for mental health services coverage through the national health insurance proposal. This alternative is not presently viable because passage of the national health insurance act is not near. Intensive study is now being directed toward this alternative for possible consideration next year.

Accomplishments.

Since the establishment of the CMHC program in the mid-1960's, 670 CMHC's have received Federal funding of nearly \$2.0 billion. In 1977, nearly 600 centers were operational, covering 45% of the population (90 million people), and providing treatment services to 2 million individuals annually.

In 1977, 450 centers received Federal grant support and 100 centers completed the eight-year Federal grant cycle. To qualify for an operational grant, P.L. 100-63, requires centers to provide the following services on a 24 hour a day, seven day a week basis:

1. Inpatient hospitalization;
2. Outpatient treatment and counseling;
3. Partial hospitalization as an alternative to full-time hospitalization;
4. 24-hour emergency services by telephone or on a walk-in basis;
5. Consultation and education services;
6. Services to children;
7. Services to the elderly;
8. Screening services to the courts and other agencies;
9. Follow-up care for former full-time patients from a mental health facility;
10. Transitional services for same;
11. Alcoholism and alcohol abuse program and drug addiction and abuse program.

Package 1 of 4 (minimum level)

DECISION PACKAGE
Department of Health, Education and Welfare
Mental Health Administration
Federal Support of Community Mental Health Services
Mental Health: 75-0001-0-1-550

Activity Description:

Continue grants only to the 430 CMHC's currently receiving Federal support, until each CMHC's eight-year grant cycle is completed.

Resource Requirements: Dollars (in thousands)

	<u>1977</u>	<u>1978</u>	<u>1979</u>		
			<u>This</u>	<u>Cumulative</u>	
			<u>Package</u>	<u>Total</u>	
Planning grants (\$)	1,000	1,000	0	0	
Operating grants (\$)	97,000	147,000	120,000	120,000	
Total obligations	<u>98,000</u>	<u>148,000</u>	<u>120,000</u>	<u>120,000</u>	
Budget authority	<u>98,000</u>	<u>148,000</u>	120,000	120,000	
Outlays	<u>97,000</u>	<u>145,000</u>	119,000	119,000	
Five-year estimates	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Budget authority	120,000	100,000	80,000	60,000	40,000
Outlays	119,000	98,000	79,000	59,000	40,000

Short-term objective:

To ensure in 1979 access to qualified comprehensive mental health services to 45% of the population (this results in treatment of about 2 million patients).

Impact on major objectives:

The major objective of 1200 qualified CMHC's by 1988 would not be met if this short term objective were continued. It is unlikely that any net increase in qualified CMHC's would result at this level because few communities have the resources to develop a qualified program. It is estimated that for each community that would develop a qualified CMHC, an existing qualified CMHC would cease to qualify because of cutbacks in service provided due to tight funds. The impact of continuing this level objective follows:

Approved For Release 2004/02/19 : CIA-RDP80M00165A000500200003-5

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Number of public and non-profit CMHC's	700	710	720	730	740	750	760	770
Number of CMHC's providing comprehensive services, as now defined	550	600	600	600	600	600	600	600
Number of CMHC's receiving grants	400	450	400	350	300	250	200	150
Percent of population covered	43	45	45	45	45	45	45	45
Percent of probable patients covered	45	50	50	50	50	50	50	50

Other Information:

Continuing grants to the 450 CMHC's currently receiving Federal support until each CMHC's eight-year cycle is completed is the minimum level because (a) the government has an eight-year contract with each CMHC, and (b) no new CMHC's will receive any grants. If zero-funded, the government would be subject to legal action brought by CMHC's.

This level would cease to encourage communities to develop CMHC's because of the (a) lack of planning grant funds and (b) lack of operational grant funds, thus negating the potential growth in the number of qualified CMHC's.

Only 57% of the high priority catchment areas would receive qualified CMHC coverage.

Approved For Release 2004/02/19 : CIA-RDP80M00165A000500200003-5

Package 2 of 4

DECISION PACKAGE
Department of Health, Education, and Welfare
Mental Health Administration
Federal Support of Community Mental Health Services
Mental Health: 75-0001-0-1-550

Activity Description

Continue grants to a total of 450 currently funded CMHC reaches the end of its eight-year cycle for eligibility, provide an eight-year grant to a newly qualified CMHC.

Resource Requirements: Dollars in thousands.

	<u>1977</u>	<u>1978</u>	<u>.....1979.....</u>	
			<u>This</u>	<u>Cumulative</u>
			<u>Package</u>	<u>Total</u>
Planning grants (\$)	1,000	1,000	0	0
Operating grants (\$)	97,000	147,000	20,000	140,000
Total obligations	98,000	148,000	20,000	140,000
Budget authority	98,000	000	20,000	140,000
Outlays	97,000	145,000	19,000	138,000
Five year estimates	1979	1980	1981	1982
Budget authority	140,000	142,000	143,000	145,000
Outlays	138,000	141,000	142,000	144,000

Short-term objective.

To ensure in 1979 access to qualified comprehensive mental health services to 49% of the population (this results in treatment of about 2.1 million patients).

Impact on major objectives.

Even without the planning grants, many communities will be encouraged to develop CMHCs because of the possibility of receiving the operating grants. However, the major objective would not be met at this level of funding. It would take until about 1990 to establish 1200 qualified CMHCs. The impact of continuing this level follows:

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	<u>1977</u>	<u>1978</u>	<u>this</u> <u>package</u>	<u>1979</u> <u>cumulative</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Number of public and nonprofit CMHCs	700	710	40	750	800	850	900	950	1,000
Number of CMHCs providing comprehensive services, as now defined	550	600	50	650	700	750	800	850	900
Number of CMHCs receiving grants	400	450	50	450	450	450	450	450	450
Percent of population covered	43	45	4	49	58	65	75	80	85
Percent of probable patients covered	45	50	4	54	64	69	80	84	88

Other information.

By 1982, 70% of the high priority catchment areas will have a qualified CMHC. Assuming the objective of CMHCs is desirable even by 1990, stretching out the program past the major objective date of 1984 will increase total program costs from \$3.6 billion to \$4.3 billion due to estimated increases in service costs.

Approved For Release 2004/02/19 : CIA-RDP80M00165A000500200003-5

Package 3 of 4 (Current level)

DECISION PACKAGE
Department of Health, Education, and Welfare
Mental Health Administration
Federal Support of Community Mental Health Services
Mental Health: 75-0001-0-1-550

Activity Description:

Fund 50% more newly qualifying CMHC's. That is, for every two CMHC's whose eight-year eligibility period ends, fund three newly qualifying CMHC's.

Resource Requirements: (Dollars in thousands)

	1977	1978	1979		
			This Package	Cumulative Total	
Planning grants (\$)	1,000	1,000	0	0	
Operating grants (\$)	97,000	147,000	10,000	150,000	
Total obligations	<u>98,000</u>	<u>148,000</u>	<u>10,000</u>	<u>150,000</u>	
Budget authority	98,000	148,000	10,000	150,000	
Outlays	<u>97,000</u>	<u>145,000</u>	<u>10,000</u>	<u>148,000</u>	
Five year estimates	1979	1980	1981	1982	1983
Budget authority	150,000	162,000	172,000	183,000	194,000
Outlays	148,000	161,000	171,000	182,000	193,000

Short-term Objective:

To ensure in 1979 access to qualified comprehensive mental health services to 51% of the population (this results in treatment of about 2.2 million patients).

Impact on Major Objectives:

	1977	1978	this Pkg.	1979 Cum.	1980	1981	1982	1983	1984
Number of public and non-profit CMHC's	700	710	25	775	850	925	1,000	1,075	1,150
Number of CMHC's providing comprehensive services, as now defined	550	600	25	675	750	825	900	975	1,050
Number of CMHC's receiving grants	400	450	25	475	500	525	550	575	600
Percent of population covered	43	45	6	51	65	75	80	85	90
Percent of probable patients covered	45	50	6	56	66	77	83	87	90

Other information:

By 1982 95% of the high priority catchment areas will have a qualified CMHC. If stretched out from 1984 to 1986, total program costs for establishing 1200 CMHC's will increase from \$3.6 billion to about \$3.8 billion.

DECISION PACKAGE
Department of Health, Education, and Welfare
Mental Health Administration
Federal Support of Community Mental Health Services
Mental Health: 75-0001-0-1-550

Activity Description:

For every CHMC whose eight year eligibility periods ends, fund two newly qualifying CMHC's.

Resource Requirements: Dollars in thousands

	1977	1978	1979		
			This Package	Cumulative Total	
Planning grants (\$)	1,000	1,000	0	0	
Operating grants (\$)	97,000	147,000	10,000	160,000	
Total obligations	98,000	148,000	10,000	160,000	
Budget authority	98,000	148,000	10,000	160,000	
Outlays	97,000	145,000	10,000	158,000	
Five year estimates	1979	1980	1981	1982	1983
Budget authority	160,000	172,000	183,000	193,000	204,000
Outlays	158,000	170,000	182,000	192,000	203,000

Short-term Objectives

To ensure in 1979 access to qualified comprehensive mental health services to 53% of the population (this results in treatment of about 2.3 million patients).

Impact on Major Objectives

	1977	1978	this pkg.	1979 cum.	1980	1981	1982	1983	1984
Number of public and non-profit CMHC's	700	710	25	800	900	1,000	1,100	1,200	1,300
Number of CHMC's providing comprehensive services, as now defined	550	600	25	700	800	900	1,000	1,100	1,200
Number of CMHC's receiving grants	400	450	25	500	550	600	650	700	750
Percent of population covered	43	45	2	53	75	80	84	93	100
Percent of probable patients covered	45	50	2	58	77	82	85	93	100

The major objective will be met at this level of funding.

Other Information

By 1982 100% of the high priority catchment areas will have a qualified CMHC. By 1984 will be \$3.6 billion.

BULLETIN NO. 77-9
EXHIBIT 4

RANKING SHEET

Department of Government
Fiscal year 1979

(Other identifying information)

Date: July 17, 1977

<u>Rank</u>	<u>Decision Package</u>	<u>BA</u>	<u>Outlays</u>	<u>Cumulative</u>	
				<u>BA</u>	<u>Outlays</u>
1	A1	924	901	924	901
2	B1	800	785	1,724	1,686
3	A2	121	121	1,845	1,807
4	C1	0	0	1,845	1,807
5	B2	30	30	1,875	1,837
6	A3	0	0	1,875	1,837
7	B3	30	30	1,905	1,867
8	C2	0	0	1,905	1,867
9	C3	0	0	1,905	1,867
10	A4	22	22	1,927	1,889
11	B4	11	11	1,938	1,900
12	C4	0	0	1,938	1,900
13	B5	30	30	1,968	1,930
14	C5	0	0	1,968	1,930
15	C6	0	0	1,968	1,930

THE WHITE HOUSE
WASHINGTON

February 14, 1977

MEMORANDUM FOR THE HEADS OF
EXECUTIVE DEPARTMENTS AND AGENCIES

During the campaign, I pledged that immediately after the inauguration I would issue an order establishing zero-base budgeting throughout the Federal Government. This pledge was made because of the success of the zero-base budget system adopted by the State of Georgia under my direction as Governor.

A zero-base budgeting system permits a detailed analysis and justification of budget requests by an evaluation of the importance of each operation performed.

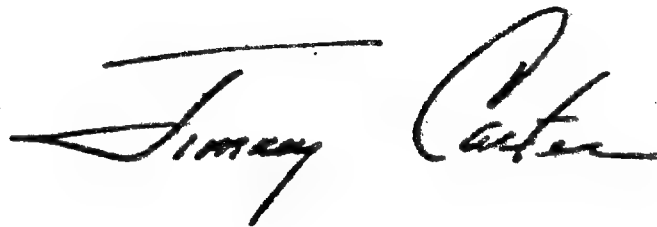
An effective zero-base budgeting system will benefit the Federal Government in several ways. It will

- . Focus the budget process on a comprehensive analysis of objectives and needs.
- . Combine planning and budgeting into a single process.
- . Cause managers to evaluate in detail the cost-effectiveness of their operations.
- . Expand management participation in planning and budgeting at all levels of the Federal Government.

The Director of the Office of Management and Budget will review the Federal budget process for the preparation, analysis, and justification of budget estimates and will revise those procedures to incorporate the appropriate techniques of the zero-base budgeting system. He will develop a plan for applying the zero-base budgeting concept to preparation, analysis, and justifications of the budget estimates of each department and agency of the Executive Branch.

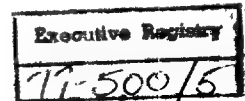
I ask each of you to develop a zero-base system within your agency in accordance with instructions to be issued by the Office of Management and Budget. The Fiscal Year 1979 budget will be prepared using this system.

By working together under a zero-base budgeting system, we can reduce costs and make the Federal Government more efficient and effective.

A handwritten signature in dark ink, reading "Jimmy Carter". The signature is written in a cursive, flowing style. The first name "Jimmy" is written with a large, sweeping initial "J" that extends over the second name. The last name "Carter" is written in a similar cursive style, with a large initial "C".

The Director of Central Intelligence

Washington, D.C. 20505



Intelligence Community Staff

DCI/IC 77-4312

21 APR 1977

MEMORANDUM FOR: NFIP Program Managers

FROM : Admiral Daniel J. Murphy, USN
Deputy to the DCI for the Intelligence
Community

SUBJECT : Zero Base Budgeting in the NFIP

1. Enclosed are the OMB Zero Base Budgeting Instructions for FY 1979 budget preparation, a copy of the Zero Base Budgeting "Handout" used at the President's Cabinet meeting on 11 April 1977, and a set of the slides used in our 18 April meeting with OSD, OMB and NFI program managers.

2. Now that OMB Zero Base Budgeting guidance is in hand and in accordance with the next phase of our ZBB implementation plan presented at the 18 April ICS meeting, it is time to specifically address the application of ZBB in the Community and within each NFIP component. The ICS, with OSD Comptroller and ASD(I) representatives where appropriate, will be visiting your program/budget offices during the remainder of April for opening discussions on the development of an overall ZBB framework for the NFIP. We will assist your staff in its efforts to implement ZBB and to provide us with the following items by 2 May 1977:

- a. Your internal ZBB procedures;
- b. Consolidated Decision Units for program and budget submissions;
- c. Issues to be highlighted in Decision Units; and
- d. Longer range issues for which extensive evaluations will be initiated.

3. During the 3-10 May 1977 timeframe, we will hold meetings with Program Managers, OMB, and OSD to further develop ZBB procedures for use in the FY 1979 NFIP Budget.

4. I realize that we are getting a very late start on implementing ZBB for the FY 1979 Budget. In fact, at this time, the formulation phase for the FY 1979 program is drawing to a close. I am hopeful, however, that with a coordinated Community ZBB approach and some hard work between now and 15 June 1977, your program can be submitted in a ZBB format for PRC(I) review.



STAT

Attachments:
As Stated

cc: PRC(I) Members



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

Bulletin No. 77-9

April 19, 1977

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Zero-Base Budgeting

1. Purpose. The President, in a memorandum of February 14, 1977 (Attachment), asked each agency head to develop a zero-base budgeting system to be used in the preparation of the 1979 Budget. In accordance with the President's direction, these instructions provide guidance on the use of zero-base budgeting techniques for the preparation and justification of 1979 budget requests within each agency. Separate instructions will be issued in OMB Circular No. A-11 to advise agencies of budget materials to be submitted to OMB. The instructions in this Bulletin lay the foundation for agency budget submissions in September in accordance with Circular No. A-11.

2. Coverage. These instructions apply to all agencies in the executive branch whose budgets are subject to Presidential review (see OMB Circular No. A-11, section 11.1). These concepts and guidelines are a framework within which each agency should develop necessary procedures to meet its individual requirements. Agencies should insure that the fundamental characteristics of zero-base budgeting are retained. Agencies excluded from the coverage of this bulletin are encouraged to develop zero-base budgeting procedures.

3. Definition of terms.

a. Decision unit. The program or organizational entity for which budgets are prepared and for which a manager makes significant decisions on the amount of spending and the scope or quality of work to be performed.

b. Decision package. A brief justification document that includes the information necessary for managers to make judgments on program or activity levels and resource requirements. A series of decision packages (a decision package set) is prepared for each decision unit and

cumulatively represents the total budget request for that unit.

c. Consolidated decision packages. Packages prepared at higher management levels that summarize and supplement information contained in decision packages received from lower level units. Consolidated packages may reflect different priorities, including the addition of new programs or the abolition of existing ones.

d. Ranking. The process by which managers array program or activity levels (as shown in decision packages) in decreasing order of priority. This ranking process identifies the relative priority assigned to each decision package increment contained in the manager's budget request based on the benefits to be gained at and the consequences of various spending levels.

e. Minimum level. The program, activity, or funding level below which it is not feasible to continue the program, activity, or entity because no constructive contribution can be made toward fulfilling its objective. The minimum level:

-- may not be a fully acceptable level from the program manager's perspective; and

-- may not completely achieve the desired objectives of the decision unit.

f. Current level. The level that would be reflected in the budget if fiscal year 1978 activities were carried on at 1978 service or other output levels without major policy changes. A concept, not unlike current services, that nevertheless permits internal realignments of activities within existing statutory authorization. Estimates of personnel compensation and other objects of expenditure will be made in accordance with OMB Circular No. A-11.

4. The zero-base budgeting concept. Zero-base budgeting is a management process that provides for systematic consideration of all programs and activities in conjunction with the formulation of budget requests and program planning.

The principal objectives of zero-base budgeting are to:

-- involve managers at all levels in the budget process;

- justify the resource requirements for existing activities as well as for new activities;

- focus the justification on the evaluation of discrete programs or activities of each decision unit;

- establish, for all managerial levels in an agency, objectives against which accomplishments can be identified and measured;

- assess alternative methods of accomplishing objectives;

- analyze the probable effects of different budget amounts or performance levels on the achievement of objectives; and

- provide a credible rationale for reallocating resources, especially from old activities to new activities.

To accomplish these objectives zero-base budgeting requires these decision-makers to:

- use "decision packages" as the major tool for budgetary review, analysis, and decisionmaking; and

- rank program or activity levels in order of priority.

5. Benefits anticipated in the Federal Government. This new system can provide significant benefits at all levels throughout the Federal Government. These benefits include:

- focusing the budget process on a comprehensive analysis of objectives, and the development of plans to accomplish those objectives;

- providing better coordination of program and activity planning, evaluation, and budgeting;

- expanding lower level management participation in program and activity planning, evaluation, and budgeting;

- causing managers at all levels to evaluate in detail the cost effectiveness of their operations and specific activities--both new and old-- all of which are clearly identified;

-- requiring that alternative ways to meet objectives are identified;

-- identifying trade-offs between and within programs; and

-- providing managers at all levels with better information on the relative priority associated with budget requests and decisions.

Many agency management processes are aimed at providing some if not all of these same benefits. In many instances, however, such processes do not operate agencywide and the information relevant to the processes is not gathered, analyzed and reviewed in a systematic manner for all programs and activities. The value of zero-base budgeting is that it provides a process requiring systematic evaluation of the total budget request and all program objectives.

6. The zero-base budgeting process. Agencies should develop their internal zero-base budgeting procedures within the following framework.

a. Identification of objectives. An important early step in zero-base budgeting is the identification of objectives for all managers preparing and reviewing decision packages.

Top level agency management should be involved in setting objectives for lower level agency managers to:

(1) help ensure that appropriate guidance is furnished to managers throughout the agency;

(2) aid managers preparing decision packages in defining, explaining, and justifying their work to be performed and the associated resources; and

(3) aid top and intermediate level managers in understanding and evaluating the budget requests.

Program and organization objectives should be explicit statements of intended output, clearly related to the basic need for which the program or organization exists. The task of identifying objectives requires the participation by managers at all levels to determine the ultimate realistic outputs or accomplishments expected from a program or organization (major objectives) and the services or products

to be provided for a given level of funding during the budget year (short-term objectives).

However, lack of precise identification and quantification of such objectives does not preclude the development and implementation of zero-base budgeting procedures.

As objectives are identified, managers should simultaneously determine the key indicators by which performance and results are to be measured. Agencies should specify measures of effectiveness, efficiency, and workload for each decision unit. These measures can often be obtained from existing evaluation and workload measurement systems. If such systems do not exist, or if data are not readily available, desirable performance indicators should not be rejected because of apparent difficulties in measurement. Indirect or proxy indicators should be considered initially, while evaluation and workload systems are developed to provide the necessary data for subsequent budget cycles.

b. Identification of decision units. Another of the first steps in zero-base budgeting is the identification of the entities in the program or organization structure whose managers will prepare the initial decision packages. In all instances, the identification of the decision units should be determined by the information needs of higher level management. Agencies should ensure that the basic decision units selected are not so low in the structure as to result in excessive paperwork and review. On the other hand, the units selected should not be so high as to mask important considerations and prevent meaningful review of the work being performed. In general, the decision unit should be at an organizational or program level at which the manager makes major decisions on the amount of spending and the scope, direction, or quality of work to be performed. A decision unit normally should be included within a single account, be classified in only one budget subfunction, and to the extent possible, reflect existing program and organizational structures that have accounting support.

c. Preparation of decision packages. The decision unit manager performs two types of analyses based on the program and budget guidance received from higher level management. First, the manager examines alternative ways of accomplishing the major objectives. Such alternatives may require legislation and may have been identified and developed as a result of a major reexamination of the program or activity. In other instances the alternatives identified may not be fully developed, but will serve as a

basis for reexamining the program at a later date. In still other instances, the alternatives identified may be the first steps toward more significant changes that will take longer than one year to accomplish. Normally, the best alternative is then selected and used as the basis for the second type of analysis--the identification of different levels of funding, activity, or performance. The purpose of identifying these different levels is to provide information on: (1) where reductions from the total request may be made, (2) the increased benefits that can be achieved through additional or alternative spending plans, and (3) the effect of such additions and reductions. Again, legislation may be required to put into effect some level of funding or performance.

However, nothing in this process should inhibit or prohibit any decisionmaker from submitting, requesting, or reviewing any information needed for analyses and decisionmaking. For example, separate decision package sets may be prepared to examine the impact of different alternatives. Also, packages reflecting increased performance or funding levels may introduce alternative methods of accomplishment that were not feasible at a lower level.

The guidance received from higher level management may determine the specific service, performance, output, or funding levels and the objectives to be discussed. This helps to insure that information provided in the decision package is broken down and arrayed in a manner conducive to higher level review of issues concerning the decision unit and also covering more than one decision unit. However, in all instances the decision package set should include:

- (1) A minimum level. In all instances, the minimum level should be below the current level (unless it is clearly not feasible to operate below the current level); and

- (2) A current level (unless the total requested for the decision unit is below the current level).

The decision package set may also include, when appropriate:

- (1) A level or levels between the minimum and current levels; and

- (2) Any additional increments desired above the current level.

Proposed changes (supplementals, amendments, rescissions) in current year amounts should be shown in packages separate from the packages described above. However, the above packages should include any budget year effect of current year changes. New programs or activities (e.g., those resulting from new legislative authority or a new major objective) will be proposed in a separate decision package set. Proposals for abolition of current programs or activities normally will not be reflected in a decision package set. However, such proposals should be highlighted, as appropriate, in another part of the agency justification.

The decision unit manager prepares a decision package set that includes decision packages reflecting incremental levels of funding and performance, so the cumulative amount of all packages represents the total potential budget request of the decision unit. Each package shows the effect of that funding and performance level on meeting the assigned objectives. The decision packages serve as the primary tool for budgetary review, analysis, and decisionmaking, although additional material may also be made available or requested for review.

Generally, a series of packages should be prepared for all programs and activities where, through legislative or administrative means, there is discretion as to the amount of funds to be spent or the appropriate method or level of activity. This does not mean that where a spending level is mandatory under existing substantive law, only one level will be identified. There are many instances in which the decision on whether to propose legislative changes is made during the preparation of the budget. There are also instances in which changes in regulations or program administration can affect the amount of resources needed to carry out a mandatory program. In these instances, packages should be prepared that analyze the effects of different funding or performance levels or alternative methods of accomplishing the objectives. In any instance where there is clearly no discretion in the amounts of funds to be spent or the appropriate method or level of activity, at least one decision package should be prepared that summarizes the analysis and decisionmaking that resulted in that request. That decision package should support the conclusion that only one funding or activity level can be considered during the budget process.

d. Ranking of decision packages. Completed decision packages should be ranked initially by the decision unit manager. At higher management levels, the rankings of each

subordinate manager are reviewed and formed into a consolidated ranking. This consolidation process is illustrated in Exhibit 1. The ranking shows the relative priority that discrete increments of services or other outputs have in relation to other increments of services or other outputs. The process is explicitly designed to allow higher level managers the opportunity to bring their broader perspectives to bear on program priorities by allowing them to rank the decision packages and make program trade-offs.

Agencies may use whatever review and ranking techniques appropriate to their needs. However, the minimum level for a decision unit is always ranked higher than any increment for the same unit, since it represents the level below which the activities can no longer be conducted effectively. However, the minimum level package for a given decision unit need not be ranked higher than an incremental level of some other decision unit. A minimum level for a decision unit may be ranked so low in comparison to incremental levels of other decision units that the funding level for the agency may exclude that minimum level package. This would signify the loss of funding for that decision unit.

Decision packages or decision package sets may be prepared to examine the effect of alternative ways to meet an objective (see Section 6.c.). In these instances, only those decision packages that are part of the unit's request should be ranked. The other decision packages should accompany the submission, however, so higher review levels may examine the alternatives and have an opportunity to replace the requested packages with those representing an alternative thus far not recommended.

e. Higher level review. In all instances, the use of decision packages and priority rankings are the major tools for analysis, review, and decisionmaking. At each higher management level:

- decision packages may be revised, deleted, or added; and

- rankings submitted by subordinate managers may be revised.

(1) Consolidation of decision packages. In some small agencies, it may be desirable for each higher management level to review every decision package prepared by each decision unit. In other instances, however, higher

level management's decisionmaking needs may better be met by recasting all or some of the initial decision packages into a lesser number of consolidated decision packages. The consolidated packages would be based upon the more detailed information in the initial packages, but the information would be recast or reinterpreted in a broader frame of reference to focus on significant program alternatives or issues. The objectives may be redefined to reflect the higher level manager's program perspective.

This consolidation process may also be used to reduce what would otherwise be an excessive paperwork and review burden at higher levels. The agency head or his designee should determine at which review level(s) all or some of the packages will be consolidated into a lesser number of packages before submission to the next higher review level (see Exhibit 1). This consolidation should be based on natural groupings of subordinate decision units. Decision units in different budget subfunctions generally should not be consolidated. The consolidated package will summarize the more detailed information contained in the individual packages and identify the subordinate decision units covered.

In all instances a minimum level consolidated decision package will be prepared. This package may or may not include each of the minimum level packages from the decision package sets being consolidated. There will be instances when the preparation of a current level consolidated package is not feasible (e.g., when a decision package for a new program or activity is ranked higher than a current level package). When appropriate, there should also be a level or levels identified between the minimum and current levels.

(2) Type of review. The review can be conducted more effectively at each management level if the type of review is determined beforehand. This is especially important in the mid and higher levels in the agency, where the review workload may be significant, even with consolidation of packages. As a means of increasing the effectiveness of its review, higher level management may decide to limit its review of the higher-ranked packages to that necessary to provide a sound basis for ranking the packages and may choose to examine in more depth only the lower-ranked packages. The lower-ranked packages would be the first to be affected by an increase or decrease in the expected budgetary resources.

7. Preparation of materials. The following materials should be prepared for each decision unit.

a. Decision unit overview. The overview provides information necessary to evaluate and make decisions on each of the decision packages, without the need to repeat that information in each package. It should be at most two pages long, prepared in the format of Exhibit 2, and contain the following information:

(1) Identifying information. Include sufficient information to identify the decision unit, and the organizational and budgetary structure within which that decision unit is located. Each package should include the title of the appropriation or fund account that finances the decision unit, the account identification code (see OMB Circular No. A-11, section 21.3), and any internal agency code necessary.

(2) Long-range goal. When appropriate, identify the long-range goal of the decision unit. Goals should be directed toward general needs, to serve as the basis for determining the major objective(s) undertaken to work towards that goal.

(3) Major objective(s). Describe the major objectives of the decision unit, the requirements these objectives are intended to satisfy and the basic authorizing legislation. Major objectives normally are of a continuing nature or take relatively long periods to accomplish. Objectives should be measurable and should be those that program managers employ; they should form the basis for first determining and subsequently evaluating the accomplishments of programs or activities.

(4) Alternatives. Describe the feasible alternative ways to accomplish the major objectives. Identify which of the alternatives represents the method proposed for the budget year. Briefly explain how the approach selected contributes to satisfying the major objectives and the rationale for not pursuing other alternatives. This may include a discussion of organizational structure and delivery systems; longer-range cost factors; and when applicable, the unique aspects and need for the program that cannot be filled by State or local governments or the private sector (particularly for any enlarged or new proposed action).

(5) Accomplishments. Describe the progress of the decision unit toward meeting the major objectives. This section should include both quantitative and qualitative measures of results.

b. Decision packages. Each (consolidated) decision package should be no more than two pages long, be prepared in a format similar to Exhibit 3, and contain at least the following information:

(1) Identifying information. This information should include organizational identification (agency, bureau), appropriation or fund account title and identification number, specific identification of the decision unit, the package number, and the internal agency code.

(2) Activity description. Describe the work to be performed or services provided with the incremental resources specified in the package. This section should include a discussion and evaluation of significant accomplishments planned and the results of benefit/cost and other analyses and evaluations that will contribute to the justification of that level.

(3) Resource requirements. Include appropriate information, such as obligations, offsetting collections, budget authority or outlays, and employment (full-time permanent and total), for the past, current, and budget years for the upcoming budget. The increment associated with each package should be listed, along with the cumulative totals for each measure used in that package, plus all higher ranked packages for that decision unit. At an appropriate level in the process, budget authority and outlay amounts for the four years beyond the budget year should also be included, in accordance with criteria in OMB Circular No. A-11.

(4) Short-term objective. State the short-term objectives (usually achievable within one year), that will be accomplished and the benefits that will result with the increment specified and the cumulative resources shown in the package. The expected results of the work performed or services provided should be identified to the maximum extent possible through the use of quantitative measures.

(5) Impact on major objective(s). Describe the impact on the major objective(s) or goals of both the incremental and the cumulative resources shown in the package.

(6) Other information. Include other information that aids in evaluating the decision package. This should include:

- explanations of any legislation needed in connection with the package;

- the impact or consequences of not approving the package;

- for the minimum level package, the effects of zero-funding for the decision unit;

- for packages below the current level, an explanation of what now is being accomplished that will not be accomplished at the lower level; and

- the relationship of the decision unit to other decision units, including the coordination that is required.

c. Ranking sheet. Each review level will prepare a ranking sheet to submit to the next higher review level. This ranking sheet should generally contain the information shown in Exhibit 4 for the budget year.

In instances (e.g., revolving funds) where budget authority and net outlays are not a factor in reflecting the appropriate or priority level of performance, managers should use other measures (e.g. total obligations, employment).

8. OMB review and consultation. As an important element of initiating zero-base budgeting, agencies are required this year to submit for OMB and Presidential review their proposals for:

- the program, activity, or organizational level to be the basis of the (consolidated) decision packages that will form the agency budget submission to OMB;

- current and/or budget year issues that should be highlighted through either particular decision packages or, when decision packages are not appropriate, through issue

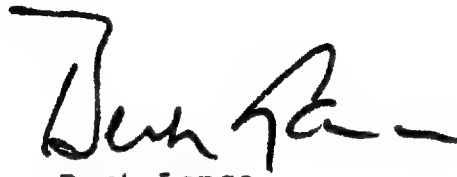
papers that ultimately tie in to one or several decision packages; and

-- longer-range issues for which agencies will initiate extensive evaluations.

This identification of issues will play an integral role in OMB's spring review of agency programs, activities, and plans. Policy guidance letters to the agencies regarding the preparation of the fall budget submission will be based in part on this information.

OMB representatives will contact the agencies shortly and request these proposals.

9. Inquiries. Should additional discussion be necessary, agencies should contact their OMB budget examiner.

A handwritten signature in dark ink, appearing to read "Bert Lance", with a long horizontal stroke extending to the right.

Bert Lance
Director

Attachment

DECISION PACKAGE RANKING AND CONSOLIDATION PROCESS ILLUSTRATED

EXHIBIT 1
BULLETIN NO. 77-9

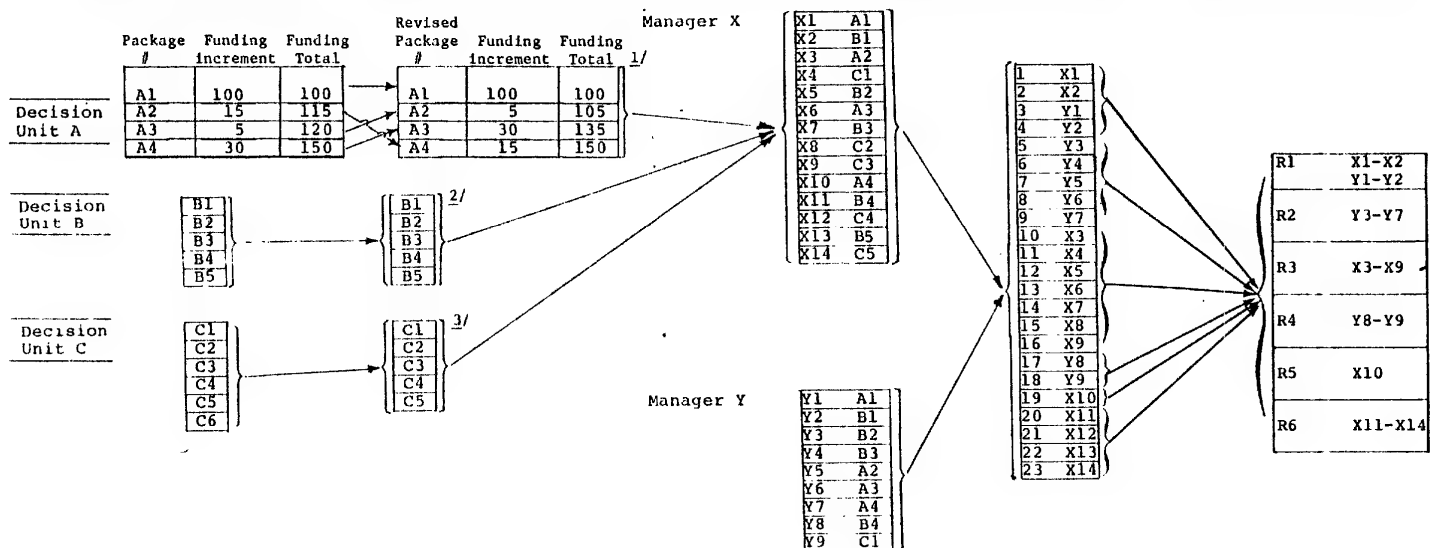
Managers A, B, and C each rank packages for their units and send to Manager X

Manager X receives packages and evaluates and ranks them within each unit

Manager X ranks packages for units A, B, and C against each other, and sends to Manager R

Manager R evaluates packages from Managers X and Y, and then ranks them against each other

Manager R prepares some consolidated decision packages before submitting budget request to next higher level



1/ Higher level manager reorders the proposed priorities of the subordinate decision unit managers. The packages may be revised by either the initial decision unit manager or the higher level manager.

2/ Higher level manager accepts proposed priorities of the subordinate manager.

3/ Higher level manager accepts proposed priorities of the subordinate manager, but chooses not to propose funding of lowest priority package.

Bulletin No. 77-9
Exhibit 2

DECISION UNIT OVERVIEW
Department of Health, Education, and Welfare
Mental Health Administration
Federal Support of Community Mental Health Services
Mental Health; 75-0001-0-1-550

Goal.

To ensure needy citizens access to community based mental health services, regardless of ability to pay. Services should be of high quality, provided in the least restrictive environment, and in a manner assuring patients' rights and dignity.

Major objective.

To assist in the establishment and operation of a nationwide network of 1,200 qualified community mental health centers (CMHCs) by 1984 to ensure availability and accessibility of services to residents of each mental health catchment area.

Current method of accomplishing the major objectives.

Grants are made to public and nonprofit entities to plan and operate community mental health center programs. The planning grants are one-time grants, not to exceed \$75,000 each. The operating grants are for eight-year periods with a declining Federal matching rate.

Alternatives.

1. Consolidate Federal funding for community mental health services and other categorical health service programs into a single formula grant to the States.
2. Consolidate Federal funding for community mental health services and other community-based inpatient and outpatient services--as well as institutionally based short-term acute and long-term care services--for the mentally ill and mentally retarded.

These alternatives are not being pursued because the States thus far have not been able to ensure that funds will be targeted into high priority areas. The Secretary believes the Federal Government must

3. Provide for mental health services coverage through the national health insurance proposal. This alternative is not presently viable because passage of the national health insurance act is not near. Intensive study is now being directed toward this alternative for possible consideration next year.

Accomplishments.

Since the establishment of the CMHC program in the mid-1960's, 670 CMHC's have received Federal funding of nearly \$2.0 billion. In 1977, nearly 600 centers were operational, covering 45% of the population (90 million people), and providing treatment services to 2 million individuals annually.

In 1977, 450 centers received Federal grant support and 100 centers completed the eight-year Federal grant cycle. To qualify for an operational grant, P.L. 100-63, requires centers to provide the following services on a 24 hour a day, seven day a week basis:

1. Inpatient hospitalization;
2. Outpatient treatment and counseling;
3. Partial hospitalization as an alternative to full-time hospitalization;
4. 24-hour emergency services by telephone or on a walk-in basis;
5. Consultation and education services;
6. Services to children;
7. Services to the elderly;
8. Screening services to the courts and other agencies;
9. Follow-up care for former full-time patients from a mental health facility;
10. Transitional services for same;
11. Alcoholism and alcohol abuse program and drug addiction and abuse program.

Package 1 of 4 (minimum level)

DECISION PACKAGE
Department of Health, Education and Welfare
Mental Health Administration
Federal Support of Community Mental Health Services
Mental Health: 75-0001-0-1-550

Activity Description:

Continue grants only to the 450 CMHC's currently receiving Federal support, until each CMHC's eight-year grant cycle is completed.

Resource Requirements: Dollars (in thousands)

	<u>1977</u>	<u>1978</u>	<u>1979</u>		
			<u>This</u> <u>Package</u>	<u>Cumulative</u> <u>Total</u>	
Planning grants (\$)	1,000	1,000	0	0	
Operating grants (\$)	97,000	147,000	120,000	120,000	
Total obligations	<u>98,000</u>	<u>148,000</u>	<u>120,000</u>	<u>120,000</u>	
Budget authority	<u>98,000</u>	<u>148,000</u>	<u>120,000</u>	<u>120,000</u>	
Outlays	<u>97,000</u>	<u>145,000</u>	<u>119,000</u>	<u>119,000</u>	
Five-year estimates	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Budget authority	120,000	100,000	80,000	60,000	40,000
Outlays	119,000	98,000	79,000	59,000	40,000

Short-term objective:

To ensure in 1979 access to qualified comprehensive mental health services to 45% of the population (this results in treatment of about 2 million patients).

Impact on major objectives:

The major objective of 1200 qualified CMHC's by 1988 would not be met if this short term objective were continued. It is unlikely that any net increase in qualified CMHC's would result at this level because few communities have the resources to develop a qualified program. It is estimated that for each community that would develop a qualified CMHC, an existing qualified CMHC would cease to qualify because of cutbacks in service provided due to tight funds. The impact of continuing this level objective follows:

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	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Number of public and non-profit CMHC's	700	710	720	730	740	750	760	770
Number of CMHC's providing comprehensive services, as now defined	550	600	600	600	600	600	600	600
Number of CMHC's receiving grants	400	450	400	350	300	250	200	150
Percent of population covered	43	45	45	45	45	45	45	45
Percent of probable patients covered	45	50	50	50	50	50	50	50

Other Information:

Continuing grants to the 450 CMHC's currently receiving Federal support until each CMHC's eight-year cycle is completed is the minimum level because (a) the government has an eight-year contract with each CMHC, and (b) no new CMHC's will receive any grants. If zero-funded, the government would be subject to legal action brought by CMHC's.

This level would cease to encourage communities to develop CMHC's because of the (a) lack of planning grant funds and (b) lack of operational grant funds, thus negating the potential growth in the number of qualified CMHC's.

Only 57% of the high priority catchment areas would receive qualified CMHC coverage.

Package 2 of 4

DECISION PACKAGE
 Department of Health, Education, and Welfare
 Mental Health Administration
 Federal Support of Community Mental Health Services
 Mental Health: 75-0001-0-1-550

Activity Description

Continue grants to a total of 450 Community Mental Health Centers (CMHCs) which reach the end of their eight-year cycle for eligibility, provide an eight-year grant to a newly qualified CMHC.

Resource Requirements: Dollars in thousands.

	<u>1977</u>	<u>1978</u>	<u>1979</u>		
			<u>This</u>	<u>Cumulative</u>	
			<u>Package</u>	<u>Total</u>	
Planning grants (\$)	1,000	1,000	0	0	
Operating grants (\$)	97,000	147,000	20,000	140,000	
Total obligations	<u>98,000</u>	<u>148,000</u>	<u>20,000</u>	<u>140,000</u>	
Budget authority	<u>98,000</u>	<u>000</u>	<u>20,000</u>	<u>140,000</u>	
Outlays	<u>97,000</u>	<u>145,000</u>	<u>19,000</u>	<u>138,000</u>	
Five year estimates	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Budget authority	140,000	142,000	143,000	145,000	146,000
Outlays	138,000	141,000	142,000	144,000	145,000

Short-term objective.

To ensure in 1979 access to qualified comprehensive mental health services to 49% of the population (this results in treatment of about 2.1 million patients).

Impact on major objectives.

Even without the planning grants, many communities will be encouraged to develop CMHCs because of the possibility of receiving the operating grants. However, the major objective would not be met at this level of funding. It would take until about 1990 to establish 1200 qualified CMHCs. The impact of continuing this level follows:

	<u>1977</u>	<u>1978</u>	<u>This package</u>	<u>1979 cumulative</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Number of public and nonprofit CMHCs	700	710	40	750	800	850	900	950	1,000
Number of CMHCs providing comprehensive services, as now defined	550	600	50	650	700	750	800	850	900
Number of CMHCs receiving grants	400	450	50	450	450	450	450	450	450
Percent of population covered	43	45	4	49	58	65	75	80	85
Percent of probable patients covered	45	50	4	54	64	69	80	84	88

Other information.

By 1982, 70% of the high priority catchment areas will have a qualified CMHC. Assuming the objective of CMHCs is desirable even by 1990, stretching out the program past the major objective date of 1984 will increase total program costs from \$3.6 billion to \$4.3 billion due to estimated increases in service costs.

Package 3 of 4 (Current level)

DECISION PACKAGE
Department of Health, Education, and Welfare
Mental Health Administration
Federal Support of Community Mental Health Services
Mental Health: 75-0001-0-1-550

Activity Description:

Fund 50% more newly qualifying CMHC's. That is, for every two CMHC's whose eight-year eligibility period ends, fund three newly qualifying CMHC's.

Resource Requirements: (Dollars in thousands)

	1977	1978	1979		
			This Package	Cumulative Total	
Planning grants (\$)	1,000	1,000	0	0	
Operating grants (\$)	97,000	147,000	10,000	150,000	
Total obligations	98,000	148,000	10,000	150,000	
Budget authority	98,000	148,000	10,000	150,000	
Outlays	97,000	145,000	10,000	148,000	
Five year estimates	1979	1980	1981	1982	1983
Budget authority	150,000	162,000	172,000	183,000	194,000
Outlays	148,000	161,000	171,000	182,000	193,000

Short-term Objective:

To ensure in 1979 access to qualified comprehensive mental health services to 51% of the population (this results in treatment of about 2.2 million patients).

Impact on Major Objectives:

	1977	1978	this Pkg.	1979 Cum.	1980	1981	1982	1983	1984
Number of public and non-profit CMHC's	700	710	25	775	850	925	1,000	1,075	1,150
Number of CMHC's providing comprehensive services, as now defined	550	600	25	675	750	825	900	975	1,050
Number of CMHC's receiving grants	400	450	25	475	500	525	550	575	600
Percent of population covered	43	45	6	51	65	75	80	85	90
Percent of probable patients covered	45	50	6	56	66	77	83	87	90

Other information:

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By 1982 95% of the high priority catchment areas will have a qualified CMHC. If stretched out from 1984 to 1986, total program costs for establishing 1200 CMHC's will increase from \$3.6 billion to about \$3.8 billion.

Package 4 of 4

DECISION PACKAGE
Department of Health, Education, and Welfare
Mental Health Administration
Federal Support of Community Mental Health Services
Mental Health: 75-0001-0-1-550

Activity Description:

For every CHMC whose eight year eligibility periods ends, fund two newly qualifying CHMC's.

Resource Requirements: Dollars in thousands

	<u>1977</u>	<u>1978</u>	<u>1979</u>		
			<u>This Package</u>	<u>Cumulative Total</u>	
Planning grants (\$)	1,000	1,000	0	0	
Operating grants (\$)	97,000	147,000	10,000	160,000	
Total obligations	<u>98,000</u>	<u>148,000</u>	<u>10,000</u>	<u>160,000</u>	
Budget authority	<u>98,000</u>	<u>148,000</u>	<u>10,000</u>	<u>160,000</u>	
Outlays	<u>97,000</u>	<u>145,000</u>	<u>10,000</u>	<u>158,000</u>	
Five year estimates	1979	1980	1981	1982	1983
Budget authority	160,000	172,000	183,000	193,000	204,000
Outlays	158,000	170,000	182,000	192,000	203,000

Short-term Objectives

To ensure in 1979 access to qualified comprehensive mental health services to 53% of the population (this results in treatment of about 2.3 million patients).

Impact on Major Objectives

	<u>1977</u>	<u>1978</u>	<u>this pkg.</u>	<u>1979 cum.</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Number of public and non-profit CHMC's	700	710	25	800	900	1,000	1,100	1,200	1,300
Number of CHMC's providing comprehensive services, as now defined	550	600	25	700	800	900	1,000	1,100	1,200
Number of CHMC's receiving grants	400	450	25	500	550	600	650	700	750
Percent of population covered	43	45	2	53	75	80	84	93	100
Percent of probable patients covered	45	50	2	58	77	82	85	93	100

The major objective will be met at this level of funding.

Other Information

Approved For Release 2004/02/19 : CIA-RDP80M00165A000500200003-5

By 1982 100% of the high priority catchment areas will have a qualified CHMC. Total program cost by 1984 will be \$3.6 billion.

BULLETIN NO. 77-9
EXHIBIT 4

RANKING SHEET

Department of Government
Fiscal year 1979

(Other identifying information)

Date: July 17, 1977

<u>Rank</u>	<u>Decision Package</u>	<u>BA</u>	<u>Outlays</u>	<u>Cumulative</u>	
				<u>BA</u>	<u>Outlays</u>
1	A1	924	901	924	901
2	B1	800	785	1,724	1,686
3	A2	121	121	1,845	1,807
4	C1	0	0	1,845	1,807
5	B2	30	30	1,875	1,837
6	A3	0	0	1,875	1,837
7	B3	30	30	1,905	1,867
8	C2	0	0	1,905	1,867
9	C3	0	0	1,905	1,867
10	A4	22	22	1,927	1,889
11	B4	11	11	1,938	1,900
12	C4	0	0	1,938	1,900
13	B5	30	30	1,968	1,930
14	C5	0	0	1,968	1,930
15	C6	0	0	1,968	1,930

THE WHITE HOUSE

WASHINGTON

February 14, 1977

MEMORANDUM FOR THE HEADS OF

EXECUTIVE DEPARTMENTS AND AGENCIES

During the campaign, I pledged that immediately after the inauguration I would issue an order establishing zero-base budgeting throughout the Federal Government. This pledge was made because of the success of the zero-base budget system adopted by the State of Georgia under my direction as Governor.

A zero-base budgeting system permits a detailed analysis and justification of budget requests by an evaluation of the importance of each operation performed.

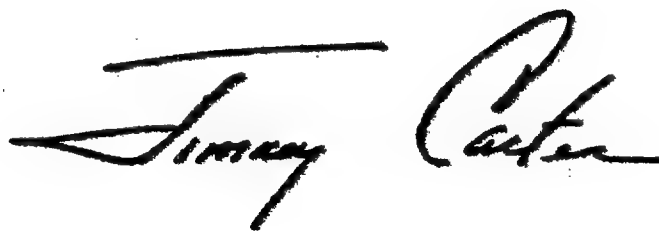
An effective zero-base budgeting system will benefit the Federal Government in several ways. It will

- . Focus the budget process on a comprehensive analysis of objectives and needs.
- . Combine planning and budgeting into a single process.
- . Cause managers to evaluate in detail the cost-effectiveness of their operations.
- . Expand management participation in planning and budgeting at all levels of the Federal Government.

The Director of the Office of Management and Budget will review the Federal budget process for the preparation, analysis, and justification of budget estimates and will revise those procedures to incorporate the appropriate techniques of the zero-base budgeting system. He will develop a plan for applying the zero-base budgeting concept to preparation, analysis, and justifications of the budget estimates of each department and agency of the Executive Branch.

I ask each of you to develop a zero-base system within your agency in accordance with instructions to be issued by the Office of Management and Budget. The Fiscal Year 1979 budget will be prepared using this system.

By working together under a zero-base budgeting system, we can reduce costs and make the Federal Government more efficient and effective.

A handwritten signature in cursive script, reading "Jimmy Carter". The signature is written in dark ink on a light background.

07-45-85

THE WHITE HOUSE
WASHINGTON

To : Admiral Turner
Director CIA

Attached is copy of
handout at Cabinet meeting
4-11-77. (Copy requested by
Adm. Turner.)

David Woodham

13 APR 1977

ZERO BASE BUDGETING
SUMMARY STATEMENT

Zero Base Budgeting is a management technique that permits agency managers to develop a better understanding of their organization and provides them detailed information for making budget decisions. While the technique must be adapted to the unique aspects of each agency, in general the steps outlined below should be followed in its implementation.

1. Analyze existing activities and objectives

The first step is to identify the activities performed by the agency or area of responsibility, the person responsible for performing each activity, and the major objectives of that activity. At this point, consideration might be given to redistributing some of the activities to insure that activity or program managers have a relatively even workload.

2. Development of decision units

The next step is for each higher echelon manager to sit down with each individual activity or program manager reporting to him and define the "decision units" he wishes to utilize and identify the major objectives toward which the activity will be directed for the period under review. A decision unit may be defined as a group of activities that have a common objective. It is suggested that an individual activity or program manager identify no more than 5 - 10 units for purposes of reporting to his supervisor.

3. Compilation of information

The third step is the collection and summarization of the following information about the decision unit:

- a. Activities to be performed
- b. Objectives
- c. Performance measures
- d. Actual and Projected Costs
- e. Actual and Projected Personnel Levels

4. Analysis of the information

Once the information is compiled, it becomes possible to perform an initial analysis of the unit. The following questions should be asked:

- a. Is it necessary for the government to continue to perform these activities?
- b. Can the private sector do a better job of performing the activities?
- c. Can the activities be performed more efficiently?
- d. What changes would have to be made if funding for the activities were cut or eliminated?
- e. Is a similar activity being performed by another unit? Should these activities be combined?
- f. Would legislation be required to make the changes?

5. Development of decision packages

The next step is to develop a series of decision packages. The process would begin with the development of a package showing a minimum level of funding and performance. Additional packages would then be developed showing the incremental cost and performance for each of the following levels:

- a. Current level
- b. If appropriate, levels between the minimum and current
- c. If appropriate, levels above the current level

6. Ranking of decision packages

Once decision packages are prepared for all the decision units, the next step is for each manager to rank the packages for the unit in order of priority. For example, if a decision unit's budget were cut by 20%, that manager might decide to retain all activities at the minimum level or might decide to eliminate two or three activities and operate the others at the current levels. Needless to say, the process requires making decisions as to what is essential to each unit's operation.

7. Higher level rankings

Once the rankings have been completed, the next step is for them to be reviewed by the next higher echelon of management. This review is basically a three-step process in which the higher echelon of management:

- a. Reviews and analyzes the ranking to determine whether changes should be made.
- b. Develops a single ranking for all of the activities performed in the decision units being reviewed.
- c. Reviews rankings with the next higher level of management.

This process will result in an agency-wide ranking of all decision packages. That is the basic process from a managerial point of view. In deciding on how to use this tool, the following points should be kept in mind:

1. The basic purpose of the process is to help the manager understand the relation between cost and performance and to higher performance per unit of cost. The amount of detail required will depend on the activity or program and on the programmatic and managerial experience of the manager.
2. Begin zero-base budgeting by performing a general analysis of the total organization and its activities and then concentrate on initial detailed analysis on the areas that are most likely to produce the best results.
3. While in some cases immediate results will not be realized, long-range benefits can be achieved by reallocating existing resources to solve new problems instead of requesting additional funds and personnel.

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ZERO BASE BUDGETING
IN THE
NATIONAL FOREIGN INTELLIGENCE PROGRAM

18 APRIL 1977

Approved For Release 2004/02/19 : CIA-RDP80M00165A000500200003-5

OBJECTIVES

- COMPLY WITH PRESIDENTIAL DIRECTION
- INTEGRATE ZBB WITH EXISTING MANAGEMENT SYSTEMS
 - IMPLEMENT ZBB FOR FY 79 BUDGET USING AS MUCH OF EXISTING SYSTEMS AS POSSIBLE
- ALLOW PROGRAM MANAGERS MAXIMUM FLEXIBILITY WITHIN A BROAD INTELLIGENCE COMMUNITY ZBB FRAMEWORK
- DEVELOP A STRUCTURE WHICH CAN BE USED THROUGHOUT THE CYCLE, INCLUDING JUSTIFICATION OF PRESIDENT'S BUDGET TO CONGRESS
- FACILITATE CROSS-PROGRAM REVIEW
- ENCOURAGE PROGRAM MANAGERS TO RECOMMEND IMPROVED METHODS OF OPERATION

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THREE BASIC ELEMENTS OF ZBB

- IDENTIFY DECISION UNITS
- ANALYZE DECISION UNITS AND FORMULATE DECISION PACKAGES
- RANKING AND CONSOLIDATION

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FIRST STEP: IDENTIFY DECISION UNITS

- BASIC ENTITIES FOR WHICH BUDGETS ARE PREPARED--THEY MAY BE:
 - PROGRAMS/PROJECTS
 - FUNCTIONS
 - SYSTEMS
 - ORGANIZATIONAL UNITS
 - APPROPRIATION ITEMS
- SHOULD PARALLEL EXISTING FLOW OF RESPONSIBILITY FOR BUDGETARY DECISION MAKING
 - DECISION UNIT MANAGERS

SECOND STEP: ANALYZE DECISION UNITS AND FORMULATE DECISION PACKAGES

- REVIEW EACH DECISION UNIT
 - VERIFY THE PURPOSES AND ACTIVITIES
 - INVESTIGATE ALTERNATIVE WAYS TO ACCOMPLISH OBJECTIVES
- DEVELOP DECISION PACKAGES REFLECTING THE RESOURCES REQUIRED FOR PERFORMING ACTIVITIES/OPERATIONS OF DECISION UNITS AT VARIOUS LEVELS OF EFFORT
 - MINIMUM OR SURVIVAL
 - CURRENT
 - IMPROVED
- EACH DECISION PACKAGE INCLUDES NARRATIVE TO EXPLAIN:
 - PURPOSE AND JUSTIFICATION OF ACTIVITIES
 - BENEFITS
 - SHORTFALLS
- BACKUP DETAIL FOR BUDGET COST DATA/APPROPRIATION CROSSWALK
 - APPROPRIATIONS
 - OBJECT CLASS
 - MANPOWER

THIRD STEP: RANKING

- DECISION UNIT MANAGERS REVIEW AND ESTABLISH RELATIVE PRIORITY OF THEIR PACKAGES
- SUCCESSIVE MANAGEMENT LEVELS REVIEW, RANK, AND CONSOLIDATE DECISION PACKAGE SETS FROM DECISION UNIT MANAGERS
 - MINIMUM LEVEL OF EFFORT PACKAGES ARE USUALLY HIGHER ORDER REQUIREMENTS
- FINAL CONSOLIDATED PACKAGE FOR DEPARTMENT/AGENCY FORMS PMRP AND BUDGET SUBMISSIONS
- BROAD INTELLIGENCE COMMUNITY ZBB FRAMEWORK
 - OPERATING DIMENSION: TARGET ORIENTED DECISION UNITS WHERE READILY AVAILABLE
 - SYSTEM DIMENSION: CAPABILITIES DEVELOPMENT AND REQUISITION BY SYSTEM ORIENTED DECISION UNITS
 - SUPPORT DIMENSION: NON-TARGETABLE, NON-SYSTEM ORIENTED DECISION UNITS

PRC(I) REVIEW

- FOCUS ON A RANGE OF CHOICES BOTH WITHIN AND ACROSS PROGRAM AREAS TO INSURE RESOURCES CORRESPOND TO POLICY PREFERENCES
- ASSESS THE PRIORITY OF PACKAGES RELATIVE TO ALTERNATIVE NFIP FUNDING LEVELS
- RESOLUTION OF ISSUES WHICH SURFACE IN COURSE OF SUMMER PROGRAM REVIEW
- INTEGRATION OF BROAD FRAMEWORK INTO A RECOMMENDED NFIP FOR PRESIDENT'S REVIEW

IMPLEMENTATION PLAN

- 18-29 APRIL: ICS INTERACTION WITH NFI PROGRAM MANAGERS
 - JOINTLY DEVELOP ZBB FRAMEWORK
 - ASSIST IN UNDERSTANDING ZBB, DEVELOPING DECISION UNITS, AND INTERNAL ZBB PROCEDURES
- 2 MAY: NFI PROGRAM MANAGERS PROVIDE:
 - INTERNAL ZBB PROCEDURES
 - IDENTIFICATION OF DECISION UNITS/PACKAGES
 - CONSOLIDATED DECISION UNITS TO BE INCLUDED IN PMRPS AND BUDGET SUBMISSIONS
 - ISSUES TO BE HIGHLIGHTED IN DECISION UNITS
- 3-10 MAY: FINALIZE ZBB PROCEDURES FOR FY 79 WITH PROGRAM MANAGERS-OMB-DOD

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PRESIDENT'S BUDGET AND CONGRESSIONAL JUSTIFICATION

- OMB ANALYSIS AND RECOMMENDATIONS TO THE PRESIDENT
- RESOLUTION OF OMB ISSUES
- PREPARATION OF BUDGET JUSTIFICATION BOOKS INCORPORATING YEAR-LONG STRUCTURE AND PROCESS

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INTELLIGENCE COMMUNITY STAFF

Executive Registry

77-500/2

4 MAR 1977

*Basic files
White House*

NOTE FOR THE DIRECTOR

President Carter's memorandum of 14 February 1977 (attached) asks that heads of Executive agencies prepare their FY 1979 budgets using zero base budget procedures to be provided by OMB. Since the FY 1979 Intelligence Community budget preparation is already underway, it behooves us to take the OMB procedures into account as soon as possible. This memo requests an OMB/IC Staff dialogue on zero base budgeting for the Intelligence Community and information on the current status of OMB procedures.

STAT If you approve, [] in OPBD will serve as the action officer and OMB point of contact.

STAT
Executive Registry

77-500/3

Admiral, USN
D/DCI/IC

STAT
ACTION

14 MAR 1977

B-9.5

Executive Registry

77-500/2

4 MAR 1977

NOTE FOR THE DIRECTOR

President Carter's memorandum of 14 February 1977 (attached) asks that heads of Executive agencies prepare their FY 1979 budgets using zero base budget procedures to be provided by OMB. Since the FY 1979 Intelligence Community budget preparation is already underway, it behooves us to take the OMB procedures into account as soon as possible. This memo requests an OMB/IC Staff dialogue on zero base budgeting for the Intelligence Community and information on the current status of OMB procedures.

STAT If you approve, in OPBD
STAT will serve as the action officer and OMB point of contact.



Admiral, USN
D/DCI/IC

ACTION

201/10 77-4264

Approved For Release 2004/02/19 : CIA-RDP80M00165A000500200003-5

Washington, D. C. 20505

Executive Registry
77-500/1

The Honorable Thomas B. Lance
Director, Office of Management
and Budget
Washington, D. C. 20503

Dear Bert:

I am in receipt of President Carter's 14 February memorandum directing heads of Executive agencies to prepare their FY 1979 budgets using zero base budgeting procedures to be issued by your office.

Intelligence Community budgets in recent years have been prepared and reviewed internally using many of the techniques associated with zero base budgeting. I share President Carter's objectives of reducing costs and improving governmental efficiency and effectiveness through the use of zero base budgeting, and I intend to establish a working system within the Intelligence Community as soon as possible.

As you know, Intelligence Community budget preparations are closely tied to the planning, programming and budgeting cycle of the Defense Department. Consequently, preparations for the program portion of the FY 1979 budget are already well underway in all of our program offices. To minimize the impact of the institution of new budgeting procedures on ongoing budget preparations, it would be most helpful if you could provide whatever guidance you currently have available on those forthcoming procedures. Our staffs also should explore together how zero base budget techniques can best be applied in the Intelligence Community.

Yours,

STANSFIELD TURNER
Admiral, U.S. Navy

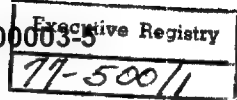
Distribution for: DCI/IC 77-4264

- 1 - Addressee
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STAT.

DCI/IC/OPBD jdp (28 Feb 77)

STAT



DCI/IC 77-4264

The Honorable Thomas B. Lance
Director, Office of Management
and Budget
Washington, D.C. 20503

Dear Bert:

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Sincerely,

Stansfield Turner

THE WHITE HOUSE
WASHINGTON

February 14, 1977

MEMORANDUM FOR THE HEADS OF

EXECUTIVE DEPARTMENTS AND AGENCIES

During the campaign, I pledged that immediately after the inauguration I would issue an order establishing zero-base budgeting throughout the Federal Government. This pledge was made because of the success of the zero-base budget system adopted by the State of Georgia under my direction as Governor.

A zero-base budgeting system permits a detailed analysis and justification of budget requests by an evaluation of the importance of each operation performed.

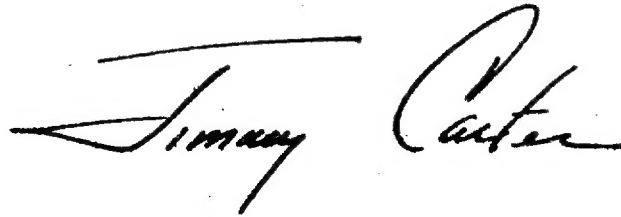
An effective zero-base budgeting system will benefit the Federal Government in several ways. It will

- . Focus the budget process on a comprehensive analysis of objectives and needs.
- . Combine planning and budgeting into a single process.
- . Cause managers to evaluate in detail the cost-effectiveness of their operations.
- . Expand management participation in planning and budgeting at all levels of the Federal Government.

The Director of the Office of Management and Budget will review the Federal budget process for the preparation, analysis, and justification of budget estimates and will revise those procedures to incorporate the appropriate techniques of the zero-base budgeting system. He will develop a plan for applying the zero-base budgeting concept to preparation, analysis, and justifications of the budget estimates of each department and agency of the Executive Branch.

I ask each of you to develop a zero-base system within your agency in accordance with instructions to be issued by the Office of Management and Budget. The Fiscal Year 1979 budget will be prepared using this system.

By working together under a zero-base budgeting system, we can reduce costs and make the Federal Government more efficient and effective.

A handwritten signature in dark ink, reading "Jimmy Carter". The signature is written in a cursive, flowing style. The first name "Jimmy" is written with a large, sweeping initial "J" that extends upwards and to the left. The last name "Carter" is written with a large, sweeping initial "C" that extends upwards and to the right. The signature is centered horizontally on the page.

EXECUTIVE SECRETARIAT

Routing Slip

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8	D/DCI/NI				
9	GC				
10	LC				
11	IG				
12	Compt	✓			
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16	Asst/DCI				
17	AO/DCI				
18	C/IPS				
19	DCI/SS				
20	D/EE0				
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SUSPENSE _____ Date _____

Remarks:

3637 (7-76)

Executive Secretary
17 Feb 77
Date

STAT

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Approved For Release 2004/02/19 : CIA-RDP80M00165A000500200003-5

EXECUTIVE SECRETARIAT

Routing Slip

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		SUSPENSE _____ Date _____			

Remarks:

3637 (7-76)

D/Executive Secretary
25 Apr 77
Date

STAT

Approved For Release 2004/02/19 : CIA-RDP80M00165A000500200003-5